



Construction Services

New VAT rules

for

Principal Contractors

and

Sub-contractors

from

1st September 2008

Introduction

From 1 September 2008, there will be major changes in how principal contractors and sub-contractors in the construction industry account for VAT. Principal contractors and sub-contractors will need to know how to operate the new system and be prepared for the change.

Who is affected?

The new system applies to principal contractors and sub-contractors involved in construction operations to which Relevant Contracts Tax (RCT) applies (but excluding haulage for hire).

RCT applies when a principal contractor is obliged to deduct tax @35% from payments to a sub-contractor or would have to do so but for the fact that the principal contractor holds a *Relevant Payments Card (RCT 47)* for that sub-contractor. Public bodies, including Local Authorities, who receive construction services are principal contractors for RCT purposes and the person who contracts to provide such services to a public body is regarded as a sub-contractor.

What is the change?

Prior to 1 September 2008 the charge that a sub-contractor makes to a principal contractor includes VAT on that service. The principal pays the sub-contractor and the sub-contractor passes on the VAT to the Revenue Commissioners.

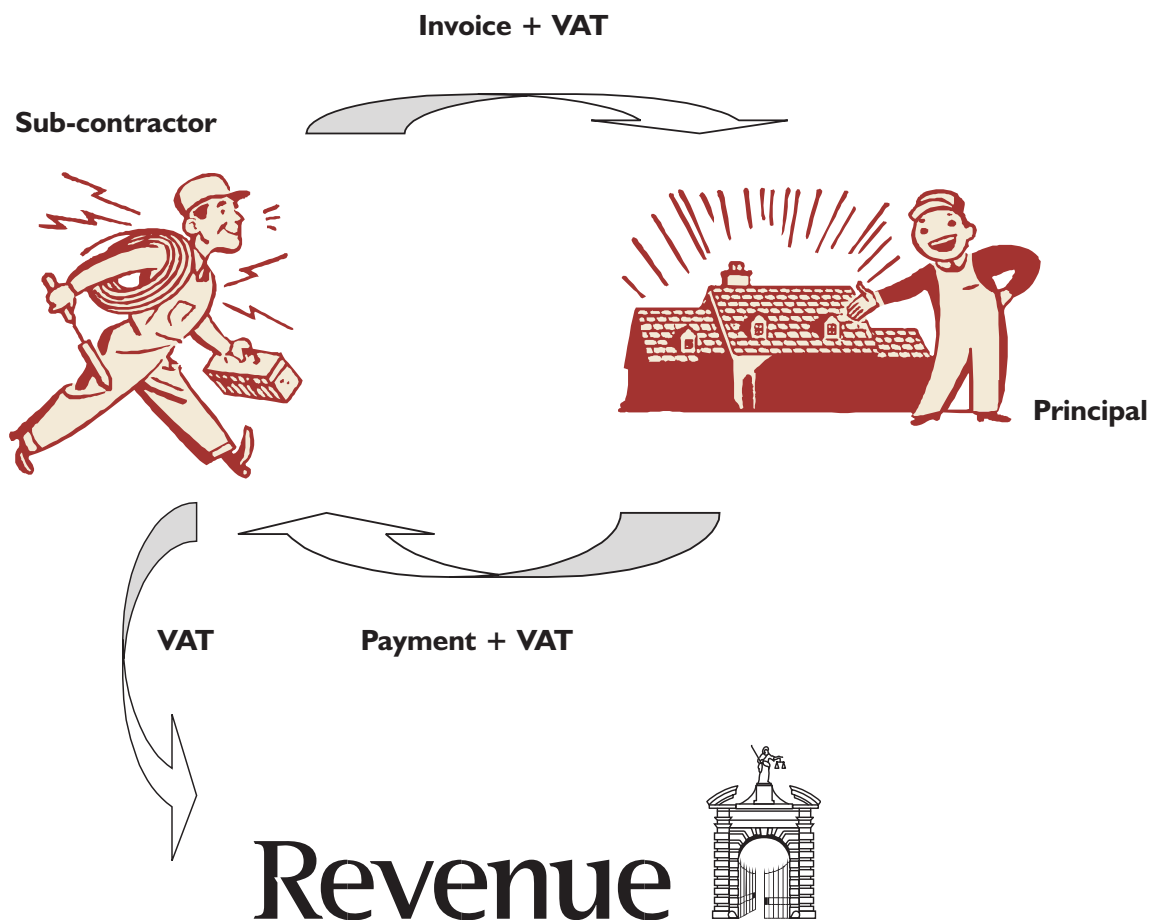
From 1 September 2008 the charge the sub-contractor makes to a principal contractor does not include VAT. Instead the principal contractor calculates the VAT on the amount charged by the sub-contractor and pays the VAT directly to the Revenue Commissioners through his/her VAT return.

Does the new system apply to all services supplied by a sub-contractor?

No. VAT on construction services that are not subject to RCT will continue to be taxed under the normal VAT system. For example, a builder who builds an extension for a private individual, or an electrician who installs a new alarm system in a shop should charge and account for VAT on the supply. The reverse charge does not apply to these supplies.

As many construction service providers are involved in different types of contracts (e.g. a builder may be acting as principal in one contract, as a sub-contractor in another and supplying services that are not subject to RCT under another contract) it is important to be aware of how the system operates.

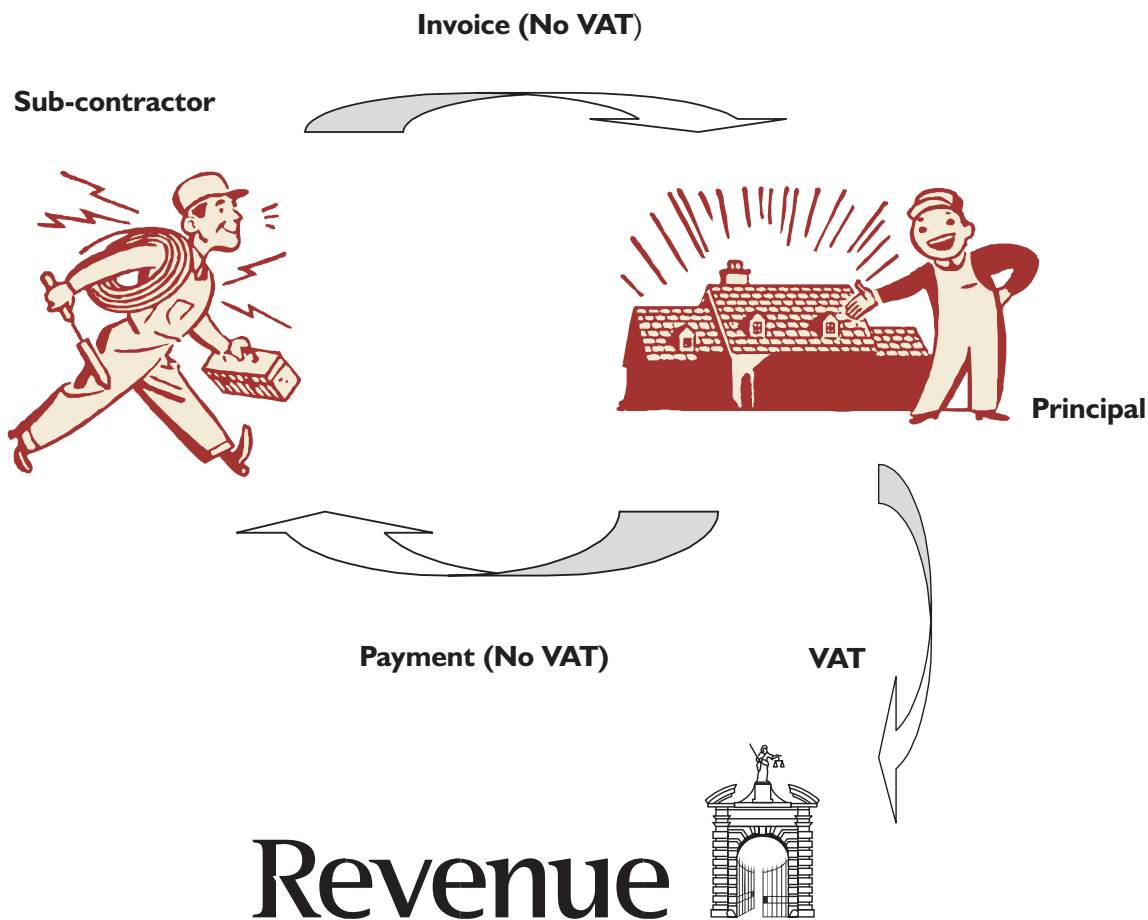
System before 1st September 2008



The position up to 1 September 2008 is as follows:

- A VAT registered sub-contractor invoices the principal contractor for construction services provided.
- The invoice shows the consideration plus the VAT rate(s) and the amount of VAT at the relevant rate(s).
- The principal contractor pays the sub-contractor for the services. This payment includes VAT.
- Unless the principal contractor holds a Relevant Payments Card for the sub-contractor, the principal contractor deducts RCT @ 35% from the full payment including VAT.
- The sub-contractor includes the VAT on the construction services in its VAT return to Revenue.
- Where entitled to do so the principal claims an input credit for the VAT incurred in its VAT return.

System after 1st September 2008



From the 1st September 2008 the principal accounts for the VAT on services received from a sub-contractor under what is known as the reverse charge.

- The charge for services by the subcontractor does not include VAT on the services.
- The VAT registered sub-contractor issues an invoice to the principal, which shows all the same information as appears on a VAT invoice, except the VAT rate and VAT amount. The invoice should include the VAT registered number of the sub-contractor.
- The invoice should also contain the statement “VAT ON THIS SUPPLY TO BE ACCOUNTED FOR BY THE PRINCIPAL CONTRACTOR”¹
- The principal contractor pays the sub-contractor for the services. This payment should not include VAT.
- If RCT is to be deducted, it should be calculated on the VAT exclusive amount.
- The principal contractor should include the VAT on the services received from the sub-contractor in its VAT return for the period in which the supply is made as VAT on Sales (TI).²
- Where entitled to do so, the principal can claim a simultaneous input credit in its VAT return for the period.³

¹ If agreed by both the principal contractor and the sub-contractor the principal may issue the invoice.

² In the case of a payment in advance of completion of the supply, the principal will include the VAT on the payment in its VAT return for the period in which the payment is made.

³ Principal contractor for RCT purposes includes Local Authorities, Government Departments and boards established by or under statute. Many of these bodies would not be entitled to VAT input credit.

Example 2

The facts are as in Example 1 but B also does building work for private householders in September/October 2008. RCT does not apply to this work. He accounts for VAT €70,000 in respect of these supplies.

C is a subcontractor, who has his own electrical business, but who does occasional work for B. C's only supplies in this period are made to B. C is registered for VAT. He charges B €48,000. C has incurred VAT of €1,000 for which he is entitled to input credit.

B is a principal contractor in respect of the electrical services he receives from C. A Ltd: See Example 1.

B, Building Contractor

- B accounts to Revenue in his/her September/October 2008 VAT return for VAT on Sales €76,480 (i.e. €70,000 VAT charged to private householders plus €6,480 reverse charge VAT on services received from C).
- B does not charge VAT on supplies to A Ltd, his principal contractor, as A Ltd accounts for VAT on these supplies on the Reverse Charge basis. See Example 1.
- B can claim input credit of €18,480 (i.e. €6,480 (48,000 @ 13.5%) in respect of the reverse charge VAT on supplies from C and also other input credit of €12,000).
- B has a VAT liability of €58,000

September/October 2008 VAT Return - B, Principal/sub-contractor.

VAT3 RETURN (and PAYSLIP)		Please complete below, detach and return	
<p>Bank Details - to be supplied if: ⇒ Payment is being made by Single Debit Authority (do not complete this authority if you are paying by cheque), or ⇒ A repayment is being sought (see Method of Repayment above).</p>			
Branch Sort Code		Office Use	T1
Account Number		AMD	T2
Debit Amount	Single Debit Authority .00	O/S	T3
Please debit my account with the amount specified.			or
			T4
E1	Value of Goods Sent to other EU Countries .00	VAT on Sales 76,480.00	
E2	Value of Goods Received from other EU Countries .00	VAT on Purchases 18,480.00	
		Excess of T1 over T2 (Payable) 58,000.00	
		Excess of T2 over T1 (Repayable) .00	
		Amount of Payment 58,000.00	
I declare that this is a correct return of Value Added Tax for the period specified.			
		Signed:-	Date:-
		VAT3 B	

Example 3

A County Council contracts for the building of a road with D Ltd which charges €1,000,000 for its services in September /October 2008. For RCT purposes the County Council is a principal contractor and the construction company is a sub-contractor.

- The construction company should invoice the County Council for €1,000,000 (it does not charge VAT).
- The County Council should calculate the VAT (€1,000,000 @ 13.5% = €135,000) and show €135,000 as VAT on Sales (T1) in its September/October 2008 VAT return.
- The County Council is not entitled to any VAT deductibility so it should show VAT on Purchases Nil.
- It should pay €135,000 VAT to Revenue.

September/October 2008 VAT Return - County Council

VAT3 RETURN (and PAYSLIP)		Please complete below, detach and return	
<p><input type="checkbox"/> Bank Details - to be supplied if: ⇒ Payment is being made by Single Debit Authority (do not complete this authority if you are paying by cheque), or ⇒ A repayment is being sought (see Method of Repayment above).</p>			
Branch Sort Code		Office Use	
Account Number		AMD	<input type="checkbox"/>
Debit Amount	Single Debit Authority .00	O/S	<input type="checkbox"/>
Please debit my account with the amount specified.			
Value of Goods Sent to other EU Countries		T1	VAT on Sales
E1	.00		, 1 3 5 , 0 0 0 .00
Value of Goods Received from other EU Countries		T2	VAT on Purchases
E2	.00		, , , , , .00
		T3	Excess of T1 over T2 (Payable)
			, 1 3 5 , 0 0 0 .00
		or	Excess of T2 over T1 (Repayable)
			, , , , , .00
		T4	Amount of Payment
			, 1 3 5 , 0 0 0 .00
I declare that this is a correct return of Value Added Tax for the period specified.			
		Signed:-	Date:-
			VAT3 B

“Two-Thirds Rule”

Where the VAT exclusive cost of goods supplied in the course of providing a service exceeds two thirds of the total VAT exclusive charge for the supply, the rate of VAT applicable is the rate that applies to the goods.

The two-thirds rule does not apply where the reverse charge applies.

Supply of goods only

The reverse charge will not apply to a supply of goods where that supply is not part of a construction service that is subject to RCT.

Commencement

The new system will apply with effect from 1 September 2008. It will not apply to any invoice that is issued before that date or that should have been issued before that date.

Records

Both principal contractors and sub-contractors should ensure that their records and accounting systems can deal with the new system.

Sub-contractors established outside the State.

A sub-contractor who is established outside the State, and whose only supplies in the State are to principals, is no longer required to be VAT registered in the State. S/he will however need to register for VAT for the purposes of claiming any refund of VAT. A sub-contractor who is established outside the State but who also provides construction services to customers other than principal contractors must register for VAT irrespective of the level of his/her turnover.

Further information

Further information is also available on the Revenue web site (www.revenue.ie.)